
WORKING GROUP REPORT

First Report—Environment and Taxation

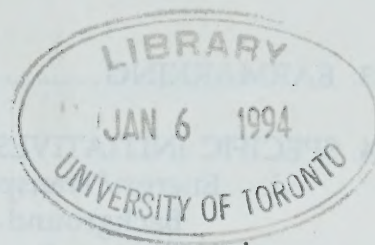




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March 9, 1992

The Honourable Floyd Laughren
Treasurer of Ontario and Minister of Economics
7th Floor Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

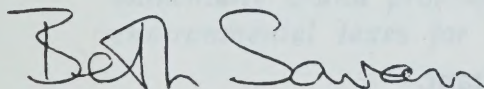
Dear Minister:

The Environment and Taxation Working Group of the Ontario Fair Tax Commission is pleased to submit its first of two reports. The second report will likely be delivered in September of this year.

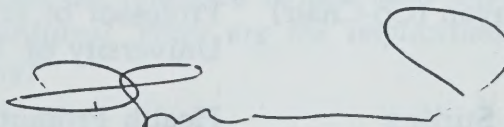
Since the middle of September, the group has done its best to fulfil its mandate of responding to the questions posed by yourself and the commissioners. It has come to a report by carrying out research and consultation, and by sharing points of view in productive discussions.

The working group is proud to participate in the discussion over the fairness of the tax system and values the opportunity to have made a contribution to the development of tax policy in the province.

Respectfully submitted,



Beth Savan, Co-Chair
(Professor, Environmental Studies,
University of Toronto)



Paul Emond, Co-Chair
(Professor, Environmental Law,
Osgood Hall Law School)

Membership List

Paul Emond (Co-Chair)	Professor of Environmental Law, Osgoode Hall
Janine Ferretti	Executive Director, Pollution Probe
Sam Gindin	Research Director, Assistant to President, Canadian Auto Workers
Joan Huzar	President, Consumers' Association of Canada (Ontario Division)
Philip Jessup	Director, Urban CO2 Reduction Project, International Council For Local Environmental Initiatives
Andrew Muller	Professor Of Economics, McMaster University (A. Muller was appointed to the working group in December, 1991)
Joy Neill	President, Northwest Chambers Association Owner/operator, Jellien Nurseries
David Rehor	Vice President and Controller, Ford Motor Company of Canada, Limited
Wayne Samuelson	Director of Political Education and Legislative Affairs, Ontario Federation of Labour
Beth Savan (Co-Chair)	Professor of Environmental Studies, University of Toronto
Alison Stirling	Health Promotion Consultant, Ontario Prevention Clearing House
Dona Stewardson	Executive Committee Member, Ontario Federation of Agriculture
Michelle Swenarchuk	Executive Director and Counsel, Canadian Environmental Law Association
Peter Victor	Economic Consultant, Assistant Deputy Minister, Ontario Ministry of Environment (resigned from working group in December, 1991 due to government appointment)

Environment and Taxation Working Group

FIRST REPORT

Executive Summary

1 INTRODUCTION

i. Mandate Of The Working Group

The Environment And Taxation Working Group is one of eight working groups that has been established by the Treasurer to answer specific questions regarding the fairness of the current tax system. The Treasurer's questions to this group read as follows:

What role should environmental considerations play in a fair tax system? What is the role of taxes and/or tax expenditures in achieving the Government's environmental objectives? What environmental tax options could best improve the fairness of the tax system as it relates to environmental objectives?

In addition, the commissioners of the Fair Tax Commission asked the working group to address the following questions:

How do current income taxes, capital taxes, and tax expenditures affect firms' behaviour towards the environment? How can these taxes and charges be adjusted in order to provide firms with the incentive to use more environmentally sound processes and procedures? What are the implications of environmental taxes for the economy?

How can product taxes be used to augment the price of environmentally damaging products? How can charges be implemented in order to decrease the abuse of environmental goods? Are there other mechanisms available to government which might more efficiently achieve the stated social policy objectives of the tax/charge?

The working group was given the opportunity to report in two stages with responses to these questions. This is the group's first report; the second will be submitted in September, 1992.

ii. The Process

The Environment and Taxation Working Group is comprised of volunteer members that encompass a wide range of constituencies and perspectives. Consultation with interested parties enables the group to incorporate a wider range of perspectives into its deliberations.

The working group has divided itself into three subgroups for the purposes of considering specific initiatives. These subgroups are: Health/Freedom From Toxics, Energy/Transportation, and Natural Resources.

iii. Description of Report

The report is divided into five sections. Section 2 outlines the group's principles and criteria for evaluating environmental taxes. Section 3 summarizes the group's discussions and position on "earmarking" or dedicating environmental tax revenues to environmental programs. Section 4 presents the group's recommendations for specific initiatives for the 1992 budget and section 5 summarizes and concludes the report.

2. PRINCIPLES AND CRITERIA FOR THE EVALUATION OF ENVIRONMENTAL TAXES

i. Principles

The group favours the use of environmental taxes as instruments of environmental policy making under certain conditions. The group has adopted a set of principles that define these conditions as follows:

PRINCIPLE #1

The primary goal of environmental taxes should be to use tax incentives and penalties to modify behaviour—to encourage environmentally sustainable practices and to discourage environmentally damaging ones. By contrast, the primary goal of environmental taxes should not be to raise revenue.

PRINCIPLE #2

To achieve environmental objectives, environmental taxes should be imposed as closely as possible to the practices they seek to change.

PRINCIPLE #3

Environmental taxes should be tied to specific examples of the changes they are designed to achieve.

ii. Criteria

When specific initiatives have been derived from principles of environmental taxation, they will need to be evaluated against a broad set of criteria. For the purposes of this working group, the criteria act as a guideline to consideration of policy measures.

The group has set out nine criteria, each of which are considered in the evaluation of policies. Environmental effectiveness, economic efficiency and impacts, distributional effects (equity), transparency (or visibility), administrative considerations, jurisdictional considerations, timing, fiscal impacts, and coordination with other policy areas are among those issues considered.

3. EARMARKING

The group discussed the differences between notional earmarking and dedicated earmarking as well as the pros and cons of earmarking. After examining this evidence, as well as models of earmarking in British Columbia and the United States, the group maintains the following position on earmarking:

- The group is strongly in favour of some form of earmarking.
- As a model for consideration, British Columbia's Sustainable Environment Fund provides a good direction.
- Earmarking can accelerate the process of environmental protection.
- Earmarking can help maintain and improve economic prosperity.
- Earmarking can improve public support for environmental taxes.

4. SPECIFIC INITIATIVES

i. Energy/Transportation

The group has developed a policy direction that will promote increased energy efficiency and conservation through price incentives, consumer information, and spending. Within this energy-related proposal, substantial consideration is given to the economy, and fairness issues. The proposal is in keeping with the group's recommendations with respect to earmarking since it involves expanded revenue gen-

eration and dedication of new funds to environmentally and economically sound programs.

The following provides the basis for the group's consensus proposal on the current Tax For Fuel Conservation:

- Expansion of the tax/credit scheme to vans and trucks in 1993 for 1994 model years.
- Creation of new credit categories for fuel-efficient vehicles in the tax/credit scheme.
- Expansion of the fee-credit differential over time.
- Labelling of vehicles to improve consumer information and education.
- Spending new revenues on a vehicle scrappage program, bicycle infrastructure, and research into energy efficiency and conservation.

ii. Health/Freedom From Toxics

The group examined the specific question of how product taxes could reduce the use of toxic products and encourage the use of more environmentally friendly products. Their focus was on the use of pesticides in urban areas. Their findings can be highlighted as follows:

- It is difficult to identify a specific range of toxic products (difficult to define a tax base) for purposes of a toxics tax on products at the retail level.
- A tax on urban pesticides at the retail level would be administratively complex and costly for government.
- A special product tax on toxics at the retail level would be unfair and costly for retailers.
- The use of pesticides in urban areas should be controlled by stricter regulation, not by a product tax.

iii. Natural Resources

The Natural Resources subgroup will not make any specific recommendations for this report. The group will continue its deliberations on the tax system and environmental considerations in agriculture, forestry, mining, and water. Deliberations and recommendations of the group on all resource issues will be reflected in the working group's final report.

5. SUMMARY AND CONCLUSIONS

The group believes that environmental taxes will only be effective and receive wide support if they are designed to meet the group's principles. The group's first principle, that the primary purpose of environmental taxes should be to achieve environmental goals and not to raise revenue, is paramount. In order to enhance the effect of environmental taxes, revenues should be dedicated to spending programs that promote environmental goals.

The Environment and Taxation Working Group expects to finish its second report by the end of September, 1992. Until that time, the group will carry out research and consultation on specific initiatives to improve the fairness of the tax system as it relates to environmental objectives.

follows

What role should taxation play in achieving environmental goals? What is the role of taxes in the environment? What is the Government's environmental strategy? What environmental policies could best improve the fairness of the tax system as it relates to environmental objectives?

In addition, the Government asked the Environment and Taxation Working Group to address the following questions:

How do current income and capital taxes affect the environment? What changes in taxation are needed in order to provide firms with the incentives to use more environmentally sound products and processes? What are the implications of environmental taxes for the economy?

How can product taxes be used to reduce the use of environmentally damaging products? How can changes in excise taxes be used to improve the achievement of environmental goals? How can the Government establish a government which might more effectively achieve the environmental policy objectives of the working group?

The Working Group has given the opportunity to express views on these questions. This is the group's final report, the second will be submitted in September, 1992.

In the future

At the middle of September 1991, the Environment and Taxation Working Group is a group of volunteers appointed by the Government to study and report on the environmental tax system. The group's membership consists of a number of environmentalists and

Environment and Taxation Working Group

FIRST REPORT

1 INTRODUCTION

i. Mandate Of The Working Group

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What role should environmental considerations play in a fair tax system? What is the role of taxes and/or tax expenditures in achieving the Government's environmental objectives? What environmental tax options could best improve the fairness of the tax system as it relates to environmental objectives?

In addition, the commissioners of the Fair Tax Commission asked the working group to address the following questions:

How do current income taxes, capital taxes, and tax expenditures affect firms' behaviour towards the environment? How can these taxes and charges be adjusted in order to provide firms with the incentive to use more environmentally sound processes and procedures? What are the implications of environmental taxes for the economy?

How can product taxes be used to augment the price of environmentally damaging products? How can charges be implemented in order to decrease the abuse of environmental goods? Are there other mechanisms available to government which might more efficiently achieve the stated social policy objectives of the tax/charge?

The working group was given the opportunity to report in two stages with responses to these questions. This is the group's first report; the second will be submitted in September, 1992.

ii. The Process

From the middle of September, 1991, the Environment and Taxation Working Group (a group of volunteers appointed by the Treasurer) met two times each month. The group's membership encompasses a wide range of constituencies and

perspectives, including business, industry, environmental, social equity, labour, and consumer representatives. The group could not, however, represent every Ontario community or constituency. Where specific initiatives were considered, broader consultation enabled the group to incorporate a wider range of perspectives into its deliberations.

Members of the working group make decisions on matters of procedure and policy by consensus in the full group. To enable members to focus on issues of personal interest, and to increase the group's efficiency in research and consultation, policy ideas are initially considered in subgroups. These subgroups report back to the full group on a regular basis for feedback on both general direction and specific comments. There are currently three subgroups: Natural Resources, Health/Freedom From Toxics, and Energy/Transportation.

Members of the working group are ultimately responsible for making decisions with respect to the specific initiatives that are considered. Suggestions for policy initiatives are generated by members, Fair Tax Commission secretariat, and government employees from various ministries who have expertise in the area of environmental, economic, energy, and natural resource policy.

iii. Description of Report

The report is divided into five sections. Section 2 outlines the group's principles and criteria for evaluating environmental taxes. Section 3 summarizes the group's discussions and position on "earmarking" or dedicating environmental tax revenues to environmental programs. Section 4 presents the group's recommendations for specific initiatives for the 1992 budget and section 5 summarizes and concludes the report.

2. PRINCIPLES AND CRITERIA FOR THE EVALUATION OF ENVIRONMENTAL TAXES

i. Principles

The group favours the use of environmental taxes as instruments of environmental policy making under certain conditions. The group has adopted a set of principles that define these conditions as follows:

PRINCIPLE #1

The primary goal of environmental taxes should be to use tax incentives and penalties to modify behaviour—to encourage environmentally sustainable practices and to discourage

environmentally damaging ones. By contrast, the primary goal of environmental taxes should not be to raise revenue.

When these principles are adhered to, environmental taxes do not constitute “tax-grabs” or “licences to pollute”. Rather, they are instruments which promote environmental objectives and sustainability at a low cost to society. The combined cost of abatement to all polluters can be less under an environmental tax than under a regulation that achieves the same level of total abatement. In addition, environmental taxes can provide equitable solutions in that polluters are made to pay for actions that are potentially harmful to the environment and human health.

PRINCIPLE #2

To achieve environmental objectives, environmental taxes should be imposed as closely as possible to the practices they seek to change.

To illustrate this principle, it is useful to use the example of carbon taxes, instruments that have been recommended in other jurisdictions to change the practice of emitting CO₂. Since it is impossible for practical purposes to impose a CO₂ charge on each individual source of emissions, the tax is placed on fossil fuels based on their carbon content which is the closest possible proxy for taxation of the emissions.

PRINCIPLE #3

Environmental taxes should be tied to specific examples of the changes they are designed to achieve.

Following the second principle will increase the likelihood that environmental tax instruments achieve their stated goals. The third principle will ensure that the goals are clear in the first place. For instance, a tax related to energy might be designed to encourage individuals to turn the lights off when they are not in, or industries to employ more energy conserving technologies. Where goals are illustrated by examples, and taxes are imposed accordingly, environmental objectives will be served.

ii. Criteria

When specific initiatives have been derived from principles of environmental taxation, they will need to be evaluated against a broad set of criteria. The group acknowledges that these criteria could be subject to varying degrees of analytical rigour. It also acknowledges that there will be tradeoffs between facets of the criteria. For the purposes of this working group, the criteria act as a guideline to considera-

tion of policy measures. They do not constrain the group from recommendation of environmental taxes by subjecting them to overly rigorous analysis or concerns that one criterion is more heavily emphasised than another.

The group has set out nine criteria, each of which are considered in the evaluation of policies. Environmental effectiveness, economic efficiency and impacts, distributional effects (equity), transparency (or visibility), administrative considerations, jurisdictional considerations, timing, fiscal impacts, and co-ordination with other policy areas are among those issues considered.

3. EARMARKING

In its deliberations, the group placed much emphasis on the issue of "earmarking" or dedication of environmental tax revenues to environmental programs. Discussions focused on the difference between notional earmarking (the deposit of revenues into a consolidated fund with equivalent funding to environmental purposes) and dedicated earmarking (the formal, legal guarantee that revenue will be spent on a particular environmental initiative), as well as on the pros and cons of earmarking.

The group is aware of the fact that some view earmarking as a restriction on the government's flexibility over spending patterns and that dedicated earmarking to a fund outside of the consolidated revenue fund might be considered to violate The Constitution Act. They are also aware, however, that successful models of earmarking exist in the United States and Canada, and that the creation of special funds directed to environmental programs has increased public support for environmental taxes in these jurisdictions.

One example of earmarking in the United States is the Intermodal Transportation Act of 1991. Under this Act, revenues from the gas tax are dedicated to the Highway Trust Fund which is, in part, used for road construction and repair. The fund is also structured to achieve environmental goals. Current legislation allows for individual states to direct money from this fund to public transportation and bicycle infrastructure.

A second example of earmarking is found in the province of British Columbia. Their Sustainable Environment Fund directs revenues generated by environmental taxes to sustainable development initiatives, waste management, and environmental protection.

The group is strongly in favour of some form of earmarking environmental tax revenues. As long as environmental tax revenues are directed at environmental programs, members do not express a strong preference for any particular form of

earmarking over another. As a model for consideration, British Columbia's Sustainable Environment Fund provides a good direction.

The group's endorsement of earmarking is consistent with its principles and criteria. In order to conform to the group's first principle, that "environmental taxes should be used to achieve environmental objectives", the tax rate might have to be so high that many of the criteria are severely violated. For example, prohibitive tax rates may change behaviour towards the environment, but they might also have negative economic, distributional, or equity consequences. To alleviate this dilemma, at least in part, tax rates can be set at lower levels and still maintain environmental effectiveness if the revenues are used to further promote the environmental goal.

The group also makes the point that earmarking can accelerate the process of environmental protection. Particularly since current technology and infrastructure may not permit the province to move rapidly into more environmentally friendly behaviours in the short-term, environmental tax revenues can be directed to spending programs that facilitate the societal shift towards more sustainable practices, while maintaining economic prosperity.

4. SPECIFIC INITIATIVES

Specific initiatives are largely considered in the three subgroups. Where subgroups do not have specific recommendations for the 1992 budget, the progress of these groups will be highlighted. In the details of the initiatives, the group makes reference to comments from those that were consulted.

i. Energy/Transportation

• Background

The Energy/Transportation subgroup has considered several environmental tax initiatives that could be designed to promote energy conservation and efficiency in Ontario. Sustainable energy use, and reduction of negative environmental consequences arising from energy consumption, are central to the environmental well-being of the province. Canada uses more energy per dollar of output than any other major industrialized country and Ontario is approximately representative of the rest of Canada in the area of fossil fuel consumption¹. The Ontario Roundtable on Environment and Economy, in its *Challenge Paper*, emphasised the importance of improving energy conservation and efficiency in the province.

¹ This information comes from Ontario Ministry of Energy publications.

Thus far, the subgroup has focused on ways to promote energy efficiency and conservation in the transportation sector. This sector accounts for approximately 24% of end use energy consumption in Ontario². Given the relative energy intensity of transportation, the group feels that it is worthwhile to examine initiatives in the transportation sector as part of the overall energy area.

- **Current Tax For Fuel Conservation**

The subgroup has initially considered the current Tax For Fuel Conservation as an instrument for advancement of energy efficiency and conservation goals. The "tax" is actually a fee/credit scheme whereby relatively fuel inefficient vehicles bear an extra tax and relatively fuel efficient vehicles obtain a special credit on purchase. The fees/credits increase with the relative fuel inefficiency/efficiency of the vehicle to provide an overall added incentive to consumers for the purchase of more efficient vehicles. Ontario's current Tax For Fuel Conservation applies to purchase of new cars and sport utility vehicles registered in Ontario (See Appendix A—"Current Tax For Fuel Conservation Rates").

- **Framework For Proposed Changes To Tax For Fuel Conservation**

The subgroup has established a policy direction that will promote increased energy efficiency and conservation through price incentives, consumer information, and spending. Within this energy-related proposal, substantial consideration is given to both economic and fairness considerations. The proposal is in keeping with the group's recommendations with respect to earmarking since it involves expanded revenue generation and dedication of new funds to environmentally and economically sound programs.

- **Description Of Proposed Changes To Tax For Fuel Conservation**

Expansion Of The Tax/Credit Scheme To Trucks And Vans

The group proposes the eventual expansion of the Tax For Fuel Conservation to include vans and light trucks. Currently, there is no fee/credit scheme applied to these categories of vehicles. In acknowledgement of the potential for fuel efficiency improvements in vans and trucks, the group proposes a structure for 1993 that includes special taxes and credits on 1994 models in these categories. See Appendix B: "Proposed Structure—Tax For Fuel Conservation". The proposed rate structures are unique to each vehicle category to account for the varying uses of different types of vehicles and the different efficiency potential for each vehicle category.

² This information comes from Ontario Ministry of Energy publications.

Expansion Of Fee-Credit Differential Over Time

The group recognizes that the incentive to purchase and manufacture vehicles with greater fuel efficiency increases with the fee-credit differential. This differential can be expanded through increased fees on relatively fuel inefficient vehicles, increased credits on the most fuel efficient vehicles, or by a combination of the two. The group proposes a combination of gradually expanded credits and taxes over a three year period to increase the incentive to purchase more fuel efficient vehicles over time.

Creation Of New Credit Categories

The group agrees that the Tax For Fuel Conservation should ultimately provide manufacturers with the incentive to strive for new, more ambitious fuel efficiency targets, and that the most fuel efficient vehicles on the market merit special credits. Therefore, the group proposes that a unique credit category be added for cars with fuel efficiency below 5.0 litres per hundred kilometres.

In addition, the group recognizes that the tax will be more effective if new credit categories are eventually added for cars. Under the current tax scheme, the large volume of new cars purchased that fall in the 6.0 to 9.0 litres per 100 kilometre range bear the same tax. The group proposes the eventual creation of new credit categories in this range. (See Appendix B for details.) This change is designed to enhance the incentive for substitution to more fuel efficient vehicles within this range, and not just between this range and other ranges of efficiency.

Labelling

The group believes that the visibility of an environmental tax at the consumer level is fundamental to its effectiveness. The fees and credits associated with the Tax For Fuel Conservation are often not visible to the consumer when the decision to buy a new car is made. The group feels that this characteristic of the current tax scheme hampers the effectiveness of the tax and that it should be changed. In order to make the tax/credit more visible to consumers, the group recommends mandatory labelling of automobiles to indicate the charge or credit to the consumer before the purchase decision is made. These labels would ideally indicate the fuel efficiency of the vehicle and the applicable credit or tax.

• **Dedication Of New Revenues**

Consistency With The Group's Principles

Eventual expansion of the Tax For Fuel Conservation to trucks and vans is predicted to lead to increased revenues. In keeping with the principles of the working group, it has been proposed that the majority of these revenues be spent on "green initiatives". Dedication of revenues means that the environmental incentives

created by taxation and price differentials are enhanced by environmental programs. The group recommends that new revenues generated by the expansion of the tax be dedicated to a vehicle scrappage program, bicycle infrastructure, and research into energy efficiency and conservation.

Vehicle Scrappage Program

To stimulate the purchase of new vehicles as an aid to the economy, and to improve the fuel efficiency of the fleet, the group proposes that a large proportion of the new funds generated by the expanded Tax For Fuel Conservation be directed to a vehicle scrappage program. Through this program, tax-generated funds would be directed to purchase and scrappage of older vehicles. Since older vehicles (approximately ten years and older) tend to emit many times more pollutants and demonstrate far worse fuel efficiency than new vehicles, there would be substantial benefits to removing them from circulation and possibly replacing them with newer, less polluting, more efficient models. If designed properly, with substantial input from automobile dealers, this program could stimulate the purchase of new vehicles and enhance policies designed to boost the auto industry.

Bicycle Infrastructure

The group recommends that part of the funds derived from the expansion of the Tax For Fuel Conservation be directed to bicycle infrastructure. The infrastructure should include parking or "lock-up" facilities situated at transit stations and in urban locations that are viable for workers on a day to day basis. It should also include new lanes or paths in urban and/or rural areas. In sum, provision of bicycle infrastructure would begin to elevate bicycles to a serious transportation alternative, thereby reducing vehicle emissions and promoting energy conservation.

An attempt should also be made to use bicycle infrastructure for the promotion of tourism in northern Ontario. For example, "Rails To Trails" travel packages that offer bicycling in the summer and cross-country skiing in the winter have successfully promoted tourism in other jurisdictions.

Research Into Energy Efficiency And Conservation

As government policy and the tax system more strongly reflect environmental goals, the availability of more environmentally sound products and production methods will be crucial. In some cases, substitutes in production and consumption are currently available; in others they are not. Where uniform energy efficiency standards or efficient alternatives are not available, the group recognizes that it will be important to establish provincial energy efficiency standards and to provide for research and new technology in developing viable energy alternatives. To promote new ideas and improve existing ones, the group recommends that environmental taxes be used to create an Ontario-based research centre that investigates new transportation and energy technologies. A research centre of this type would not only ad-

vance environmental goals; it would improve economic prospects through the development of technologies for export and cost saving in Ontario.

- **The Working Group's Principles And Criteria**

The Working Group's Principles

The working group's first principle states that environmental taxes should be used to achieve environmental goals. The strategy outlined above is consistent with environmental goals since the proposed tax/credit scheme creates visible price differentials which should provide greater incentives for the purchase and manufacture of relatively fuel efficient vehicles. In addition, revenues generated would be dedicated to environmental programs to enhance the price incentives. Therefore, the group's first principle is met through an incentive effect, and through a revenue/spending effect.

The group also adopted the principles that environmental taxes should be imposed as closely as possible to the practices they seek to change and that environmental taxes should be tied to specific examples of the changes they are designed to achieve. The proposed strategy seeks to encourage the purchase and manufacture of fuel efficient vehicles, and does so by placing a fee/rebate directly on the price of new vehicles. This will affect the specific consumer behaviour of purchasing a relatively fuel inefficient vehicle when a comparable, more efficient vehicle is available. In turn, particularly if other jurisdictions continue to pursue similar initiatives, changes in purchasing patterns will tend to encourage the manufacture of relatively fuel efficient vehicles. To provide other examples of behaviour change that arise from this proposal, the scrappage program would provide an incentive to change the specific behaviour of driving old, extremely inefficient vehicles while the bicycle infrastructure program would facilitate the use of non-polluting modes of transport.

The Working Group's Criteria

The group believes that the proposed changes to the Tax For Fuel Conservation will achieve environmental effectiveness by changing patterns of consumption and manufacture over time. Economic efficiency is met, in part because tax instruments have generally been shown to be a less costly route to greater fuel efficiency than regulatory instruments, and in part because competitiveness with the United States is not threatened by this tax since all vehicles registered in Ontario are subject to the tax/credit regardless of purchase location. The group feels that intelligibility (or visibility) will be improved through the labelling program, and that continued administration through the provincial sales tax would be highly feasible by expanding the current tax structure which is already administered through the provincial retail sales tax. Fiscal impacts are expected to be minimal in the first year where a slightly expanded credit should be more than offset by the projected increase in vehicle sales for 1992-93. Thereafter, expansion of the tax should generate between \$50 million and \$100 million on an annual basis.

The group placed great emphasis on the issue of timing. Given current economic conditions, the group recommends that, although the proposal should begin in this calendar year, the expansion of the tax to vans and trucks not take place until 1993 and apply only to 1994 and later model years in those vehicle categories. This timing of the expansion is attributable to the group's sense that the Ontario auto industry, already facing difficult economic times, should not bear any further taxation at this time. In the current period, the group recommends the planning of the proposed spending initiatives and the labelling program to be implemented in conjunction with the tax.

Considerations for distribution effects were also crucial in the group's decision-making. Distribution effects will accompany any policy change, but it is the group's view that in comparison to other options likewise designed to increase fuel conservation and promote fuel efficiency, the effects of this proposal will compare relatively favourably. Since increases in gas taxes and vehicle registration fees were other alternatives brought before the group in consultation with the auto industry, it is particularly useful to compare the potential distribution effects of the group's proposed tax/credit scheme with these other options.

The group holds the view that increases in the gas tax would exacerbate cross-border shopping problems in the province and therefore be distributionally unfair to the tourism industry and southern Ontario towns and cities whose economies are already weakened by cross-border shopping and gas price differentials between Canada and the United States.

The group also thinks that an expanded Tax For Fuel Conservation, particularly in conjunction with a vehicle scrappage program, will have minimal distributional impacts on low income groups. An increase in the gas tax, by contrast, would presumably fall disproportionately upon lower income groups who own relatively fuel inefficient vehicles. The group would view this distributional effect to be undesirable and unfair. For many of the same equity-related reasons, the group dislikes the idea of increasing vehicle registration fees on a broad basis to achieve environmental goals.

The group recognizes the potential for negative effects outside of the province's large metropolitan areas where the use of trucks and vans is more common. This potential problem has, in large part, been addressed by the different rate structures in these vehicle categories which provide viable options in each vehicle category that bear either credits or relatively low taxes.

The group believes that the proposed changes to the Tax For Fuel Conservation would not substantially harm the Ontario auto industry. In fact, the proposal is designed such that Ontario-made vehicles are available in nearly all credit categories. As a result of the predicted mild impacts on the Ontario auto industry, worker distribution should not be skewed against Ontario auto workers.

• **Other Tax Initiatives Considered By The Group**

Carbon/Energy Tax

The group views carbon/energy taxes to be potentially more fair than a tax for fuel conservation. The fairness implications will depend on policy consideration for the associated impacts. The carbon/energy tax would ideally be more broadly based and account for environmental effects and costs not currently accounted for by the tax for fuel conservation. The group would favour the replacement of the current proposal by a more broadly-based, potentially more fair tax if it demonstrated greater environmental effectiveness. On the other hand, the group recognizes that further consultation and research into more broadly-based tax initiatives is necessary before any further recommendations can be made. The group plans to investigate these options, through consultation and research, for their second report.

Commercial Concentration Tax

The Commercial Concentration Tax currently applies to Toronto Transit Commission (TTC) parking lots. The subgroup investigated the possibility that this tax was discouraging the use of public transportation. After reviewing data on parking tax rates, use of TTC lots, parking revenues, and TTC ridership, the group concluded that it would not be worthwhile to recommend the exemption of TTC lots from the Commercial Concentration Tax. In short, the group felt that there was no direct evidence that the tax was related to ridership or that it encouraged individuals to substitute public transportation for private vehicle use.

Tire Tax

The group identified two areas of concern with the Tire Tax. First, the tax lacks "intelligibility". Although the tax revenues are not earmarked, the public is generally under the impression that revenues generated by the Tire Tax are allocated to environmental programs, specifically used tire disposal. Second, the tax is not part of an integrated environmental strategy. Where environmental taxes are levied for revenue generation, spending should be directed at related environmental initiatives. In the case of the Tire Tax, revenues should be dedicated to tire recycling and safer storage at dump sites. Further, there should be some clear statement as to how revenues are currently dedicated. If it cannot be said that any funds have gone to the above stated purposes, then the tax should be withdrawn, or else retained and committed to specific environmental programs, perhaps within the working group's recommended fund for sustainability.

ii. Health/Freedom From Toxics

• Background

The subgroup on Health and Freedom From Toxics has concentrated on the issues of environmental and human health effects associated with toxic loadings in the environment. Current toxic pollution of the environment contaminates air, soil, ground and surface water and poses ecological and human health problems. In response to these problems, The Honourable Ruth Grier, Minister of the Environment, stated that the government is committed to pollution prevention and stopping transfer of pollutants from one environmental medium to another.

Other groups have been concerned with issues related to the use and application of toxics in the environment. The Ontario Roundtable on Environment and Economy has suggested in its *Challenge Paper* that water quality in the province is under increasing pressure due, in part, to toxic loadings. In addition, the Premier's Council on Health, Well-Being and Social Justice is currently developing specific targets for a provincial health goal, some of which target the reduction of toxic loadings in the environment that lead to human health problems. This subgroup will not restrict itself to the toxics issues identified by the Roundtable and the Premier's Council, but it will attempt to complement the work of the two organizations.

The subgroup does not recommend the use of an environmental tax in the area of toxics at this time. It will, however, continue to explore the possibility of applying environmental taxes, particularly in the areas of toxic inputs and effluents. To date, the group has investigated the possibility of using taxes to reduce toxic loadings in urban areas. What follows is a description of the subgroup's findings in its attempt to advance the goal of economically sustainable toxic reduction by way of environmental taxes.

• Household Toxic Products

The commissioners of the Fair Tax Commission asked the group how product taxes can be used to augment the price of environmentally damaging products. The group examined the specific question of how product taxes could reduce the use of household toxic products and encourage the use of more environmentally friendly products.

The group found that it was difficult to identify the products that would bear a tax because there are no well-established criteria to judge all products in the marketplace based on their health and environmental effects. In other words, the group found that it was difficult to define a specific tax base. Attempts to "piggyback" on federal regulations and labels which indicate the toxicity of particular products failed since it was found that some labelling that indicates toxicity is voluntary and not sufficiently descriptive of a product's attributes with respect to the environment.

The group was also concerned that an extremely broad based environmental product tax on goods that tend to be used by all income groups with no close substitutes could be inequitable and unfair for low income groups (regressive).

In order to narrow the tax base, and to improve the equity implications of any policy recommendations, the group decided to focus on products that are not typically necessities, and those that are associated with some clear toxicity criteria. In short, the group decided to investigate the possibility of imposing a tax on urban pesticides.

Pesticides are currently regulated under the Ontario Pesticides Act. Under this Act, all pesticide products sold and used in Ontario must be registered under the federal Pest Control Products Act and classified, by toxicity, in one of six schedules under the Ontario regulation. Pesticide products include insecticides, herbicides, fungicides, insect repellents, wood preservatives, rodenticides, and a miscellaneous category.

Based on the available information on pesticides, the group analyzed the idea of imposing a product tax on pesticide products that would vary with toxicity as defined by the assigned schedules. The purpose of this tax would have been to change behaviour through price signals and to raise funds for consumer education and research on environmentally friendly alternatives.

• Evaluation Based On Working Group's Criteria

The group's criteria for evaluating environmental taxes include economic efficiency, intelligibility, administrative complexity and environmental effectiveness. The group felt that the tax would demonstrate high intelligibility, especially if implemented with consumer education and labelling. On the other hand, the group found that a product tax on urban pesticides would be administratively complex and costly (inefficient) for the government. In addition, much of the compliance cost would be born by retailers, many of whom have already incurred substantial costs with the application of the federal GST. The group also felt that, given the narrow tax base, the environmental effectiveness of the tax would be questionable. Thus, in weighing the proposal against the criteria, the group chose not to recommend a product tax on urban pesticides at the retail level.

The commissioners of the Fair Tax Commission asked if there are mechanisms available to government which would more efficiently achieve the stated objectives of any tax. The group feels that the use of pesticides in urban areas should be controlled by stricter regulation in order to achieve the goal of reducing the toxic loading in urban settings, thus reducing the threat to human health and the environment. This view is shared by a number of environmental groups around the province including those that constitute the Urban Pesticides Caucus. Preliminary consultation with Canadian Chemical Producers also suggested that regulation is the best environmental policy instrument in the area of urban pesticide application. There was no specific discussion with the chemical industry over the level of regulation that would be desirable.

The group will continue to explore other possible initiatives in the area of toxics and human health. Deposit-refund schemes for pesticide containers, toxics taxes and effluent charges are priorities for further investigation. The group will carry out research and consultation on these initiatives in the upcoming months. Its findings and recommendations on the initiatives will be reflected in the working group's final report.

iii. Natural Resources

The subgroup on Natural Resources is currently examining issues in mining, forestry, and agriculture. The group has spent a number of months building knowledge in these areas in order to clearly identify the environmental issues and draw connections between these issues and the tax system. Members of the group are working within a framework of improved resource stewardship and sustainability. The group has just started to identify specific ways the tax system can promote stewardship in the areas of mining, agriculture and forestry.

The group will be carrying out consultation on initiatives in agriculture, mining, and possibly forestry early this spring. In the meantime, members plan to study issues of water use. Deliberations and recommendations of the group on all resource issues will be reflected in the working group's final report.

5. SUMMARY AND CONCLUSIONS

The Environment and Taxation Working Group has been meeting on a regular basis for six months. During this time, the group has established a process for the consideration of specific initiatives, developed a set of principles and criteria to evaluate specific initiatives, considered several policy options in subgroups and as a full group, and formulated some opinions in the two specific areas of toxics, and energy/transportation. For this report, the group has also made a substantive recommendation for a change to the tax system in the area of energy/transportation.

The group believes that environmental taxes will only be effective and receive wide support if they are designed to meet the group's principles. The group's first principle, that the primary purpose of environmental taxes should be to achieve environmental goals and not to raise revenue, is paramount. In order to enhance the effect of environmental taxes, revenues should be dedicated to spending programs that promote environmental goals.

The three subgroups of the Environment and Taxation Working Group are at different stages in their work. The Natural Resources group will continue its deliberations on the tax system and environmental considerations in agriculture, forestry, mining, and water. The Health and Toxics Group has researched and discussed the issue of urban pesticides and will now turn its attention to toxics taxes and effluent charges. The Energy/Transportation group has made some recommendations in this report with respect to the Tax For Fuel Conservation, and will continue to examine more broadly-based initiatives for the group's second report.

The Environment and Taxation Working Group expects to finish its second report by the end of September, 1992. Until that time, the group will carry out research and consultation on specific initiatives to improve the fairness of the tax system as it relates to environmental objectives.

Appendix A

Current Structure Tax For Fuel Conservation

Current Structure (effective August 1, 1991)

Car		
L/100 km		Tax

Below 6.0		\$ 100 Cr
6.0 - 8.9		75
9.0 - 9.4		250
9.5 - 12.0		1,200
12.1 - 15.0		2,400
15.1 - 18.0		4,400
Over 18.0		7,000

Sport Utility Vehicles		
L/100 km		Tax

Below 8.0		\$ 100 Cr
8.0 - 8.9		75
9.0 - 9.4		200
9.5 - 12.0		400
12.1 - 15.0		800
15.1 - 18.0		1,600
Over 18.0		3,200

Note : All fuel consumption ratings are Highway ratings as published by Transport Canada.

Appendix B

Proposed Structure Tax For Fuel Conservation

Proposed Structure for 1992 (for 1993 Models ie. October 1992 – Sept. 1993)

Car		Sport Utility Vehicles	
L/100 km	Tax	L/100 km	Tax
Below 5.0	\$ 250 Cr		
5.0 – 5.9	150 Cr	Below 8.0	\$ 100 Cr
6.0 – 8.9	75	8.0 – 8.9	75
9.0 – 9.4	250	9.0 – 9.4	200
9.5 – 12.0	1,200	9.5 – 12.0	400
12.1 – 15.0	2,400	12.1 – 15.0	800
15.1 – 18.0	4,400	15.1 – 18.0	1,600

Proposed Structure for 1993 (for 1994 Models ie. October 1993 – Sept. 1994)

Car		Sport Utility Vehicles		Vans *		Other Trucks *	
L/100 km	Tax	L/100 km	Tax	L/100 km	Tax	L/100 km	Tax
Below 5.0	\$ 300 Cr						
5.0 – 5.9	200 Cr	Below 8.0	\$ 150 Cr	Below 8.0	\$ 150 Cr	Below 8.0	\$ 150 Cr
6.0 – 8.9	100	8.0 – 8.9	100	8.0 – 10.0	100	8.0 – 10.0	100
9.0 – 9.4	350	9.0 – 9.4	300	10.1 – 10.4	300	10.1 – 12.0	150
9.5 – 12.0	1,500	9.5 – 12.0	600	10.5 – 12.0	600	12.1 – 13.9	300
12.1 – 15.0	3,000	12.1 – 15.0	1,200	12.1 – 15.0	1,200	14.0 – 17.0	600
15.1 – 18.0	5,500	15.1 – 18.0	2,400	15.1 – 18.0	2,400	17.1 – 18.0	1,200

Proposed Structure for 1994 (for 1995 Models ie. October 1994 – Sept. 1995)

Car		Sport Utility Vehicles		Vans *		Other Trucks *	
L/100 km	Tax	L/100 km	Tax	L/100 km	Tax	L/100 km	Tax
Below 5.0	\$ 350 Cr						
5.0 – 5.9	250 Cr						
6.0 – 6.9	100 Cr	Below 8.0	\$ 200 Cr	Below 8.0	\$ 200 Cr	Below 8.0	\$ 200 Cr
7.0 – 8.9	150	8.0 – 8.9	150	8.0 – 10.0	150	8.0 – 10.0	150
9.0 – 9.4	500	9.0 – 9.4	400	10.1 – 10.4	400	10.1 – 12.0	250
9.5 – 12.0	2,300	9.5 – 12.0	800	10.5 – 12.0	800	12.1 – 13.9	400
12.1 – 15.0	4,000	12.1 – 15.0	1,600	12.1 – 15.0	1,600	14.0 – 17.0	800
15.1 – 18.0	6,800	15.1 – 18.0	3,200	15.1 – 18.0	3,200	17.1 – 18.0	1,600

* Includes vehicles under the light-duty Gross Vehicle Weight limit of 8,500 pounds.

Note : All fuel consumption ratings are Highway ratings as published by Transport Canada.



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